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BUSINESS

# KP sounds alarm as federal transfers fall short in July-December

• Warns funding gap could derail IMF-linked Rs157bn budget surplus for FY26, provision of essential services in merged districts • Transfers under divisible pool stand short by Rs76bn in first half of 2025-26

By Mubarak Zeb Khan

ISLAMABAD: At a time when the federal government is grappling with its own fiscal shortfall, the Khyber Pakhtunkhwa government has raised concerns that revenue transfer shortfalls from the centre during the first half of 2025-26 have jeopardised the province's ability to meet its annual budget surplus target, as agreed with the International Monetary Fund (IMF).

The provincial government further warned that the delayed and reduced federal transfers are exerting significant pressure on its finances, particularly impacting the delivery of essential services in the merged districts of the former Federally Administered Tribal Areas (Fata).

The issue was formally raised in a two-page letter from Khyber Pakhtunkhwa's Adviser on Finance to the Chief Minister, Muzammil Aslam, to Federal Finance Minister Muhammad

Aurangzeb. The letter followed weeks after newly appointed Chief Minister Sohail Afridi publicly accused the federal government of withholding the province's rightful share from the divisible pool.

The provincial government said that the budgeted surplus of Rs157 billion for the current fiscal year was based on the assumption that federal transfers would be released in full and on schedule. Any delay or shortfall in these transfers, the letter warned, directly undermines the province's ability to uphold fiscal discipline and achieve its agreed surplus target.

The scale of the problem was most visible in the merged districts.

The KP government allocated Rs292bn for the merged districts in 2025-26, including Rs143bn for current expenditures, Rs50bn under the Accelerated Implementation Programme (AIP), Rs40bn for the Annual Development Programme (ADP), Rs43bn as

the province's estimated 3 per cent share of the NFC award, and Rs17bn for temporarily displaced persons (TDPs).

However, actual federal releases during the first half of FY26 amounted to just Rs56bn, only 19pc of the total allocation. Provincial officials have warned that this shortfall has significantly constrained development activity and severely disrupted essential public service delivery in some of the country's most historically neglected regions.

According to Mr Muzammil, despite limited federal support, the provincial government has continued to sustain development through its own resources. The province released Rs26.4bn under the AIP, even though it received no federal funding under this head.

Similarly, against federal releases of just Rs9.8bn, the KP government provided Rs16.4bn from its own budget to maintain development momentum, despite growing fiscal imbalances. For current expenditures

in the merged districts, provincial spending has reached Rs63bn, while federal transfers stood at only Rs46bn, leaving a funding gap of Rs17bn.

The concerns now extend beyond the merged districts, as shortfalls in federal transfers continue to undermine KP's fiscal stability. Releases under straight transfers have fallen sharply below target, only Rs19bn has been received so far against the annual allocation of Rs115bn, representing just 17pc of the total.

Moreover, shortfalls in divisible pool tax transfers have further strained the province's finances. KP's share in federal tax assignments for the first half of FY26 was projected at Rs643bn, including the 1pc share for the war-on-terror. However, actual receipts amounted to only Rs567bn — resulting in a shortfall of Rs76bn.

The shortfall is also pronounced in Net Hydrel Profit (NHP) payments. Against a

budgeted amount of Rs106bn for FY26, the federal government has released only Rs18bn during the first half, just 17pc of the expected disbursement.

These mounting revenue pressures have coincided with unavoidable spending obligations. The KP government incurred Rs28bn on flood response and rehabilitation efforts, along with an additional Rs7bn on support for TDPs. Officials warn that these unplanned expenditures have further squeezed the province's already limited fiscal space.

The KP government has cautioned that if federal releases continue at the current pace, achieving the budgeted surplus of Rs157bn will become increasingly complex. It has called for urgent corrective measures, stressing the need for timely and predictable federal transfers in line with budgeted assumptions to stabilise provincial finances and protect public service delivery, the letter added.

# Seafood export zone planned at Korangi

Minister announces \$80m project to boost value-added exports and blue economy

By Kalbe Ali

ISLAMABAD: Federal Minister for Maritime Affairs Muhammad Junaid Anwar Chaudhry on Saturday announced plans to establish a 100-acre seafood processing and export zone at the Korangi Fisheries Harbour Authority (KoHFA), with an estimated cost of \$80 million, to promote the blue economy and expand Pakistan's footprint in global seafood trade.

In a statement, the minister said the project aims to develop, finance and operate a modern seafood processing and value-addition complex under KoHFA, positioning Korangi as a regional hub for sustainable, technology-driven seafood processing linked to high-value international markets.

He said the initiative would bridge medium-scale seafood processors and value-added plants with global buyers by providing modern infrastructure, internationally recognised certification standards and efficient export logistics. The project, he added, would help shift exports away from raw seafood towards higher-value processed products.

According to the minister, the zone would span 100 acres at Korangi Fisheries Harbour, with project costs estimated between \$60m and \$80m, based on regional benchmarks from countries such as Vietnam, China and Ecuador that have developed similar seafood parks.

Planned facilities include multi-tenant seafood processing units, large-scale cold storage, packaging facilities, logistics and export terminals, and a wastewater treatment plant to ensure environmentally compliant operations. The zone would be used exclusively for commercial seafood processing, packaging, cold storage and export-oriented activities.

Mr Chaudhry said the project is proposed under a public-private partnership or build-operate-transfer concession model, in which private investors would develop, operate, and maintain the facility, while KoHFA would retain regulatory oversight and provide facilitation.

He said the zone would host 20 to 25 medium- and large-scale seafood processing units for fish, shrimp and cephalopod processing, value addition and export-grade packaging. The project would also include a cold storage and blast-freezing complex with multi-temperature storage ranging from minus 18 to minus 40 degrees Celsius, enabling the safe handling of fresh, processed, and unprocessed seafood. Ice plants and flake ice stations with a daily capacity of 50 to 100 tonnes would support fish landing, processing and transportation.

Dedicated value-addition and ready-to-eat units would be set up for filleting, marinated products, breaded seafood, and export-oriented convenience foods, allowing Pakistani exporters to access premium retail and foodservice markets abroad.

The minister said alternative models could include joint development and operations partnerships between KoHFA and private seafood exporters or manufacturers. He added that the project would position Pakistan as a key maritime trade and seafood export hub serving Gulf, East African and Asian markets.

Mr Chaudhry said the initiative is aligned with Pakistan's National Blue Economy Policy and Vision 2030, and benefits from strategic connectivity to Karachi Port, Port Qasim, the Korangi Industrial Area and regional shipping routes.

# Kabir Sidhu appointed SECP chairman

ISLAMABAD: The Finance Division has notified the appointment of Dr Kabir Ahmed Sidhu as Chairman of the Securities and Exchange Commission of Pakistan (SECP) with immediate effect, following approval by the federal government.

Dr Sidhu is currently serving as Chairman of the Competition Commission of Pakistan (CCP), where he led one of the most significant institutional turnarounds in the commission's history.

When he took office in August 2023, the CCP was facing long-standing enforcement bottlenecks and a large backlog of litigation and enquiries. Within two years, the commission reduced its court case backlog by over 70 per cent, with 434 cases decided out of 567 pending matters. This progress helped restore the regulator's credibility and enforcement capacity, while also developing precedent and jurisprudence for the CCP.

Dr Sidhu holds a Bachelor's degree in Law, an LL.M in Banking, Insurance and International Business Law, and a PhD from the University of Manchester. He also earned a postgraduate diploma in Civil Litigation from the Manchester Law Society and certifications in mortgage and financial advice from the London Institute of Banking and Finance. His doctoral research focused on investor protection and the regulation of stock exchanges in the UK, the US and Shariah-compliant stock exchanges.—Staff Reporter

# Dollar inflows from exchangers dip

• Banks receive 30pc fewer dollars in 1HFY26 • Untraceable outflows raise questions over currency flows

By Shahid Iqbal

KARACHI: Banks received 30 per cent fewer US dollars from exchange companies in the first half of the current fiscal year, according to official data.

Exchange companies sold about \$1.4 billion to banks during July-December FY26, compared with around \$2bn in the corresponding period of FY25, reflecting a decline of nearly 30pc.

Exchange companies are required to sell surplus foreign currency in the banking market. However, they are also allowed to sell dollars to individuals for specific purposes.

"The customers bought about \$1.2bn in six months from exchange companies, kept \$400m in bank accounts and the remaining \$800m is not traceable," said Malik Bostan, Chairman of the Exchange Companies Association of Pakistan (ECAP).

The untraceable \$800m is believed to have been used for purchasing virtual currencies. Trading in virtual currencies remains unregulated in Pakistan, though the State Bank is working on a framework to regulate cryptocurrency transactions.

The government has expressed support for cryptocurrency trading and is willing to legalise it with the assistance of the State Bank. Selling dollars to the general public is not straightforward, as exchange companies typically issue cheques for encashment through banks or directly transfer dollars into buyers' bank accounts instead of providing cash.

Data show that currency sales to banks have been on a declining trend from June to December 2025. The highest

inflow was recorded in June, when banks received \$408m.

At the start of FY26, sales stood at \$279m in July, falling sharply to \$163m in August. They recovered to \$187m in September, rose to \$243m in October, dipped slightly to \$238m in November and increased again to \$271m in December.

Despite rising remittance inflows this year, dollar sales by exchange companies to banks have declined.

"Special apps available on websites are attracting dollars from Pakistan. The current US dollar rate offered by these apps is around Rs292, which is highly attractive for dollar holders," Mr Bostan said, adding that these platforms guide holders either to sell at these rates or invest in cryptocurrencies.

**Exchange rate outlook**

"The latest liquidity profile of the SBP shows aggregate short positions of less than \$2bn, broadly in line with the IMF's target, and suggests that reserve accumulation has not been driven by buy-sell swaps but by mopping up excess liquidity from the interbank market," said Faisal Mamsa, CEO of Tresmark.

The current trajectory implies a potential breach of the Rs280 to a US dollar; however, with the real effective exchange rate at 104.8, competitiveness already appears stretched. In this context, the central bank should resist a decisive break below Rs280, preferring stability over signalling strength, particularly as import demand gradually recovers and longer-dated external pressures remain unresolved, he said.

"For now, the dollar-rupee parity is likely to remain range-bound, with two-way movement increasingly coming into play," he added.



COMMERCE Minister Jam Kamal Khan and Indonesian Vice Minister of Trade Dyah Roro Esty Widya Putri sign the MoU for the establishment of the Joint Trade Committee on Saturday.—APP

# Pakistan, Indonesia to set up JTC to boost trade

By Our Staff Reporter

KARACHI: Pakistan and Indonesia have signed a memorandum of understanding to establish an Indonesia-Pakistan Joint Trade Committee (JTC) to strengthen trade dialogue, facilitate cooperation and address opportunities and challenges in bilateral trade.

The MoU was signed after high-level talks in Islamabad on Friday, led by Commerce Minister Jam Kamal Khan and visiting Indonesian Vice Minister of Trade Dyah Roro Esty Widya Putri, said a press release.

The development coincided with a reception hosted by the Indonesian Consulate General in Karachi in honour of the visiting vice minister, attended by government officials and representatives of the business community from both countries.

During the talks, Mr Kamal described Indonesia as strategically important within the Association of Southeast Asian Nations (Asean) and said it could serve as a regional hub for fostering trilateral and regional economic cooperation.

The federal minister emphasised that Pakistan could serve as a reliable source for minerals, cosmetics, pharmaceuticals and agri-food commodities

for the Indonesian market.

He also conveyed Pakistan's intention to organise a single-country exhibition and business forum in Jakarta, with invitations to be extended to Asean member states, aimed at showcasing Pakistani products and strengthening regional business linkages.

Trade Development Authority of Pakistan (TDAP) Chief Executive sought Indonesian facilitation for the early announcement of fruit import quotas, rationalisation of certification requirements for Pakistani exports, notification of rice import quotas and improved market access for industrial-grade potatoes.

Both sides agreed to work jointly towards expanding the existing preferential trade agreement (PTA), with the shared objective of progressing towards a Comprehensive Economic Partnership Agreement to unlock greater trade and investment opportunities.

Mr Kamal noted that imported edible oil, primarily from Indonesia, forms an essential part of Pakistan's food chain and daily life and appreciated the continued contribution of Indonesian and Pakistani stakeholders to sustaining bilateral trade.

The Indonesian vice minister reaffirmed Indonesia's com-

mitment to deeper economic ties and welcomed closer cooperation through the newly established JTC.

With bilateral trade exceeding \$4 billion, both sides reiterated their commitment to further strengthening relations through political trust, growing economic cooperation and people-to-people links, the press release said.

**Growth in auto sales**

Separately, the minister on Wednesday expressed optimism that sales of locally manufactured vehicles would improve in the coming years, citing policies aimed at discouraging imports of used cars.

Mr Kamal said Pakistan's annual production of vehicles, currently below 200,000 units, could rise to between 500,000 and one million units, creating new investment opportunities. He also stressed the need to strengthen auto-financing to support higher sales of locally made vehicles.

During a visit to the Bin Qasim automotive cluster of the Pakistan Association of Automotive Parts and Accessories Manufacturers, he reaffirmed the government's commitment to supporting domestic automobile manufacturing and exports.

# PSX hits uncharted highs in bullish week on liquidity surge

Index scales fresh highs as easing inflation and policy rate cut hopes fuel local buying

By Muhammad Kashif

KARACHI: The Pakistan Stock Exchange (PSX) opened the new calendar year on a buoyant note, posting robust gains in the first full trading week as abundant liquidity and expectations of further monetary easing propelled equities to record highs.

The benchmark KSE-100 index surged past the 187,000-point mark during the early sessions, touching uncharted territory before profit-taking in the latter half of the week pared some of the advance.

The rally was largely driven by excess liquidity flowing into equi-

ties in the absence of compelling alternatives, coupled with growing optimism that another rate cut is on the cards as consumer inflation continues to decelerate. However, the last two sessions saw investors lock in gains, trimming weekly returns.

Despite being among the world's fastest-growing equity markets, the PSX has failed to attract foreign investors, even as it delivered massive returns in calendar year 2025. Data from the State Bank of Pakistan (SBP) show net foreign outflows of \$393 million from the equity market during the first half of FY26, against inflows of \$142m, underscoring persistent caution among overseas investors.

The contrast between buoyant domestic participation and foreign reticence has become increasingly stark. Local investors continue to pour funds into equities despite subdued economic growth over the past three years, raising questions about the stock market's traditional role as

a barometer of the broader economy. While corporate payouts and capital gains have remained attractive, foreign investors appear unconvinced by the risk-reward balance.

According to Topline Securities Ltd, the KSE-100 index rose 3 per cent week-on-week, driven by aggressive buying from mutual funds following fresh allocations to equity schemes, alongside optimism over a policy rate cut at the upcoming monetary policy meeting. The prospect of lower interest rates has further enhanced the appeal of equities as an asset class.

Several macroeconomic developments helped reinforce sentiment. Worker remittances in December 2025 reached \$3.6bn, up 17pc year-on-year and 13pc month-on-month, providing support to the external account.

Investor activity surged during the week, with average daily traded volume climbing 77pc week-on-week to 1.3bn shares, while average daily

traded value jumped 151pc to Rs79bn, signalling heightened participation across the board.

Arif Habib Ltd (AHL) reported that the KSE-100 index advanced from 179,035 points last week to 184,410, gaining 5,375 points or 3pc. The move was supported by rallies in heavyweight stocks amid new-year buying, along with positive company-specific developments.

The government raised Rs979.3bn through the T-bill auction, exceeding its Rs850bn target, while participation remained strong at Rs2.55 trillion. Yields fell by 28.6 to 33.8 basis points across maturities. SBP-held foreign exchange reserves rose by \$140.6m to \$16.1bn during the week, while commercial bank reserves increased by \$39.6m to \$5.1bn. The rupee appreciated marginally, strengthening 0.03pc week-on-week to close at Rs280.02 against the dollar.

On the fiscal side, central government debt stood at Rs77.5tr as of November 2025, up 10.2pc year-on-

year, though month-on-month growth was contained at 0.7pc.

In the energy sector, tariff rebasing from a fiscal-year to calendar-year basis is expected to lower the power purchase price by Rs0.51 per unit in CY26 compared to FY26, translating into a base tariff cut of Rs0.62 per unit.

Agriculture data remained mixed, with cotton arrivals stable year-on-year by the end of December. Punjab recorded a 4pc decline, while Sindh saw a 4pc increase, though overall arrivals in both regions remained below targets. Cotton production for FY26 is estimated at 6.8m bales, reflecting a 33pc shortfall against projections.

AKD Securities noted that the market's sharp upward move was underpinned by favourable macro indicators, improving external balances and declining yields. Additional support came from positive diplomatic engagements and reports of potential defence-related

deals, alongside renewed momentum around CPEC Phase II.

Sector-wise, transport, pharmaceuticals, insurance, refineries, and leather and tanneries led gains, while textile spinning and select consumer segments lagged.

Flow data showed mutual funds and companies as net buyers, while banks and foreign investors remained net sellers. The KSE-100 is currently trading at a price-to-earnings ratio of 9.2 times, offering a dividend yield of around 5.4pc.

Analysts at AKD Securities expect sentiment to remain broadly supportive, citing the likelihood of further monetary easing, an improving external account and continued reform efforts amid relative political stability. They project the KSE-100 index to reach 263,800 points by December 2026, with investor confidence potentially bolstered by renewed inflows of foreign portfolio and direct investment as external relations improve.